

ORIGINAL
OPEN MEETING



MEMORANDUM

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2006 MAY 11 A 10: 39

TO: THE COMMISSION

FROM: Utilities Division

AZ CORP COMMISSION
DOCUMENT CONTROL

DATE: May 11, 2006

RE: IN THE MATTER OF THE APPLICATION OF MORENCI WATER & ELECTRIC COMPANY FOR AN ADJUSTMENT IN ITS PURCHASED POWER AND FUEL ADJUSTMENT CLAUSE RATE (DOCKET NO. E-01049A-06-0219)

On April 4, 2006, Morenci Water & Electric Company ("Morenci" or "the Company") filed an application for a change in its Purchased Power and Fuel Adjustment Clause ("PPFAC" or "adjustor") rate. In Decision No. 67676 (March 9, 2005), the Commission approved a temporary credit of $-\$0.02939$ per kWh in the PPFAC rate for Morenci to address the problem of a highly over-collected PPFAC bank balance. The temporary credit in Morenci's PPFAC rate was ordered to remain in place until such time as the bank balance is reduced to zero, or the end of February 2007, whichever occurs first. In Decision No. 68438 (February 2, 2006), the Commission approved over-collected and under-collected threshold levels for Morenci and further ordered that "the Company file an application with the Commission to establish a new PPFAC rate either two months prior to the month the bank balance is projected by the Company to reach zero, or by December 31, 2006, whichever occurs first." This application is Morenci's response to that requirement as its PPFAC bank balance is projected by the Company to reach zero in April 2006.

The Company's PPFAC bank balance has been over-collected since June 2003. The over-collected bank balance had grown in a linear fashion to a maximum level of $\$557,497$ in March 2005. At that time, the temporary credit of $-\$0.02939$ per kWh ordered in Decision No. 67676 became effective, increasing the Company's negative adjustor by $-\$0.02939$ from $-\$0.01391$ to $-\$0.04330$. The Company's PPFAC over-collected bank balance has declined each month since that time and is rapidly approaching zero.

Both Staff and Morenci are concerned that when the $-\$0.02939$ per kWh temporary credit expires as a result of the bank balance being reduced to zero, the Company's PPFAC adjustor rate would revert to its former level of $-\$0.01391$, and the over-collected bank balance could again begin to accumulate. The requirement from Decision No. 68438 that Morenci file an application for a new PPFAC rate was imposed to allow for reevaluation of current purchased power costs and market conditions and to provide an opportunity to establish a new adjustor rate that would more closely reflect Morenci's current and projected costs for purchased power.

Morenci Electric Rate Components for Purchased Power			
	Current Rate	Temporary Credit Removed	Proposed Rate
Base Cost of Purchased Power	\$0.07522	\$0.07522	\$0.07522
PPFAC Adjustor Rate	-\$0.01391	-\$0.01391	-\$0.01900
PPFAC Temporary Credit	-\$0.02939	0	0
Total Rate Collected From Customer	\$0.03192	\$0.06131	\$0.05622

In the chart above, the "Current Rate" column illustrates the components of the rate for purchased power that are currently in effect including the temporary credit of -\$0.02939 put into place to eliminate Morenci's over-collected bank balance. The total rate for purchased power collected from the customer is significantly lower than Morenci's actual cost of purchased power which averaged \$0.05092 for the 12 months ending March 2006. The "Temporary Credit Removed" column illustrates the rate when Morenci's bank balance reaches zero if a new adjustor rate is not put into place. The temporary credit is removed and the rate reverts back to the \$0.06131 level where it was prior to implementation of the Decision No. 67676 credit. This rate is higher than the current and forecast cost of purchased power and could again result in accumulation of an over-collected bank balance, subject to the accuracy of the forecasts. The "Proposed Rate" column shows the current adjustor rate of -\$0.01391 replaced with Morenci's proposed new adjustor rate of -\$0.01900. This adjustor rate results in a total rate collected from the customer of \$0.05622, a level estimated by Morenci and Staff to closely match Morenci's cost for purchased power and to minimize the accumulation of an over-collected or under-collected bank balance. This total rate for purchased power is 8.3 percent lower than the \$0.06131 that was in effect prior to the implementation of the temporary credit.

Staff has reviewed Morenci's projections for future purchased power costs, sales, and other estimations used in setting an appropriate new adjustor rate and finds them to be reasonable. Staff has also examined the models used to calculate projected bank balance levels into the future and finds the models to be consistent with the methodology Morenci uses to report its monthly PPFAC bank balance information and also consistent with the methodology Staff uses to verify Morenci's bank balance calculations.

Staff's analysis is based upon Morenci's models but is updated with actual data through March 2006. Staff's analysis shows the bank balance reaching zero in May 2006 and assumes implementation of the new adjustor rate in June 2006. In its application, Morenci had assumed the bank balance would reach zero in April 2006 with implementation of the new rate in May 2006.

Staff's analysis indicates the PPFAC bank balance would reach the \$200,000 over-collected threshold level in December 2007 if no action is taken and the adjustor rate were allowed to revert back to the -\$0.01391 level in effect before the temporary credit was implemented. Staff concurs with Morenci that an adjustor rate of -\$0.01900 results in a total rate

close to Morenci's projected cost of purchased power and is a reasonable estimation of a PPFAC adjustor rate that, for the foreseeable future, is likely to minimize the Company's accumulation of a significant over-collected or under-collected balance. Staff's analysis projects a bank balance even closer to zero through most of the analysis period than Morenci's and one that remains well within the over-collected threshold level of \$200,000 and the under-collected threshold level of \$500,000.

Morenci's analysis illustrates the proposed adjustor rate of $-\$0.01900$ being implemented in May 2006 and being replaced with another new adjustor rate of $-\$0.01290$ in January 2008. This less negative adjustor is to track increasing purchased power costs and to minimize a growing under-collected balance projected for the latter half of 2008. Staff's analysis assumes the $-\$0.01900$ rate will remain in effect through the end of 2008, as far as the analysis projects. Staff's analysis shows a rapidly growing under-collected bank balance near the end of 2008, but one that is well within Morenci's \$500,000 under-collected threshold level. Morenci informed Staff that it was not proposing that the Commission approve a two-step adjustor rate, and Staff does not recommend a two-step adjustor.

The current and proposed PPFAC adjustor rates are both negative as Morenci's actual costs for purchased power continue to be lower than the base cost of power set in Decision No. 54712. Approximately 98 percent of the Company's electric sales are contract sales to its single industrial customer. These sales fall outside the PPFAC because the customer is served under a special contract. The PPFAC mechanism is relevant only to the other two percent of Morenci's sales to 1,789 residential and 261 commercial customers as of March 2006. During the last few years, the Company's electric sales subject to the PPFAC exhibited a slow growth pattern, but with some seasonality during the summer cooling season and the winter heating season. The number of jurisdictional customers and usage per customer are both slowly increasing. Although the costs to serve Morenci's large industrial customer are not included in the PPFAC, the Company is able to negotiate long-term contracts for all of its customers because of this large industrial load, resulting in added stability and possibly lower purchased power costs for all customers.

Implementation of the new adjustor rate, including automatic discontinuance of the temporary credit of $-\$0.02939$ and replacement of the current adjustor of $-\$0.01391$ with the proposed adjustor of $-\$0.01900$, would have the effect of increasing the residential customer's monthly bill from \$35.76 to \$48.40, assuming 2005 average usage of 521 kWh monthly. This would be a 35.3 percent increase in the current residential monthly bill. In a peak month, this would have the effect of increasing the residential customer's monthly bill from \$45.37 to \$62.01, assuming 2005 peak usage of 685 kWh per residential customer. This would be a 36.7 percent increase in the current peak month bill.

Staff and Morenci have discussed the provision of notice to customers regarding its application for adjustor rate changes. The Company is currently composing a notice on the effect of removal of the temporary credit and implementation of the proposed adjustor for Staff review. Morenci anticipates that it could include such notice in the local weekly newspaper to be

THE COMMISSION

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published May 24, 2006. Morenci has also agreed to provide notice on the effect of removal of the temporary credit and implementation of any new Commission-approved adjustor with customer bills sent out in June 2006. This would be the same billing that would utilize the new adjustor rates in the calculation of customer bills. Morenci would also publish any new Commission-approved adjustor rate in the local newspaper as soon as possible after Commission approval and before the June billing.

In summary, Staff feels that implementation of the proposed adjustor rate would set the total rate closer to the actual and projected cost of purchased power and, therefore, minimize the accumulation of either an over-collected or under-collected bank balance. Although the rate represents a 35.3 percent increase, the increase is over a current rate deliberately set well below the cost of purchased power in order to remove a significant over-collected bank balance and would result in a total rate lower than the rate in effect prior to the implementation of the temporary credit.

Staff recommends adoption of the proposed adjustor rate of $-\$0.01900$ per kWh to replace the current adjustor rate of $-\$0.01391$ per kWh, effective with the bills sent in June 2006.

Staff further recommends that the new adjustor rate be implemented concurrently with the removal of the temporary adjustor rate credit of $-\$0.02939$ per kWh and that both shall be reflected on bills sent in June 2006.

Staff also recommends that Morenci provide timely notice (acceptable to Staff) to customers, informing them of the new adjustor rate to be implemented. This may be in the form of a newspaper notice and must be published prior to the Company billing in June.



Ernest G. Johnson
Director
Utilities Division

EGJ:JDA:lmh\JMA

ORIGINATOR: Jerry D. Anderson

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 JEFF HATCH-MILLER
 Chairman
3 WILLIAM A. MUNDELL
 Commissioner
4 MARC SPITZER
 Commissioner
5 MIKE GLEASON
 Commissioner
6 KRISTIN K. MAYES
 Commissioner

7
8 IN THE MATTER OF THE APPLICATION) DOCKET NO. E-01049A-06-0219
9 OF MORENCI WATER & ELECTRIC) DECISION NO. _____
10 COMPANY FOR AN ADJUSTMENT IN ITS) **ORDER**
11 PURCHASED POWER AND FUEL)
12 ADJUSTMENT CLAUSE RATE

12 Open Meeting
13 May 31 - June 1, 2006
14 Phoenix, Arizona

14 BY THE COMMISSION:

15 **FINDINGS OF FACT**

- 16 1. The Morenci Water & Electric Company ("Morenci" or "the Company") is certificated
17 to provide electric service as a public service corporation in the State of Arizona.
- 18 2. On April 4, 2006, Morenci filed an application for a change in its Purchased Power and
19 Fuel Adjustment Clause ("PPFAC" or "adjustor") rate. In Decision No. 67676 (March 9, 2005),
20 the Commission approved a temporary credit of -\$0.02939 per kWh in the PPFAC rate for
21 Morenci to address the problem of a highly over-collected PPFAC bank balance. The temporary
22 credit in Morenci's PPFAC rate was ordered to remain in place until such time as the bank balance
23 is reduced to zero, or the end of February 2007, whichever occurs first. In Decision No. 68438
24 (February 2, 2006), the Commission-approved over-collected and under-collected threshold levels
25 for Morenci and further ordered that "the Company file an application with the Commission to
26 establish a new PPFAC rate either two months prior to the month the bank balance is projected by
27 the Company to reach zero, or by December 31, 2006, whichever occurs first." This application is
28 ...

1 Morenci's response to that requirement as its PPFAC bank balance is projected by the Company to
2 reach zero in April 2006.

3 3. The Company's PPFAC bank balance has been over-collected since June 2003. The
4 over-collected bank balance had grown in a linear fashion to a maximum level of \$557,497 in
5 March 2005. At that time, the temporary credit of -\$0.02939 per kWh ordered in Decision
6 No. 67676 became effective, increasing the Company's negative adjustor by -\$0.02939 from
7 -\$0.01391 to -\$0.04330. The Company's PPFAC over-collected bank balance has declined each
8 month since that time and is rapidly approaching zero.

9 4. Both Staff and Morenci are concerned that when the -\$0.02939 per kWh temporary
10 credit expires as a result of the bank balance being reduced to zero, the Company's PPFAC
11 adjustor rate would revert to its former level of -\$0.01391, and the over-collected bank balance
12 could again begin to accumulate. The requirement from Decision No. 68438 that Morenci file an
13 application for a new PPFAC rate was imposed to allow for reevaluation of current purchased
14 power costs and market conditions and to provide an opportunity to establish a new adjustor rate
15 that would more closely reflect Morenci's current and projected costs for purchased power.

16

17 **Morenci Electric Rate Components for Purchased Power**

	Current Rate	Temporary Credit Removed	Proposed Rate
18 Base Cost of Purchased Power	\$0.07522	\$0.07522	\$0.07522
19 PPFAC Adjustor Rate	-\$0.01391	-\$0.01391	-\$0.01900
20 PPFAC Temporary Credit	-\$0.02939	0	0
21 Total Rate Collected From Customer	\$0.03192	\$0.06131	\$0.05622

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23

24 5. In the chart above, the "Current Rate" column illustrates the components of the rate
25 for purchased power that are currently in effect including the temporary credit of -\$0.02939 put
26 into place to eliminate Morenci's over-collected bank balance. The total rate for purchased power
27 collected from the customer is significantly lower than Morenci's actual cost of purchased power
28 which averaged \$0.05092 for the 12 months ending March 2006. The "Temporary Credit

1 Removed" column illustrates the rate when Morenci's bank balance reaches zero if a new adjustor
2 rate is not put into place. The temporary credit is removed and the rate reverts back to the
3 \$0.06131 level where it was prior to implementation of the Decision No. 67676 credit. This rate is
4 higher than the current and forecast cost of purchased power and could again result in
5 accumulation of an over-collected bank balance, subject to the accuracy of the forecasts. The
6 "Proposed Rate" column shows the current adjustor rate of -\$0.01391 replaced with Morenci's
7 proposed new adjustor rate of -\$0.01900. This adjustor rate results in a total rate collected from
8 the customer of \$0.05622, a level estimated by Morenci and Staff to closely match Morenci's cost
9 for purchased power and to minimize the accumulation of an over-collected or under-collected
10 bank balance. This total rate for purchased power is 8.3 percent lower than the \$0.06131 that was
11 in effect prior to the implementation of the temporary credit.

12 6. Staff has reviewed Morenci's projections for future purchased power costs, sales,
13 and other estimations used in setting an appropriate new adjustor rate and finds them to be
14 reasonable. Staff has also examined the models used to calculate projected bank balance levels
15 into the future and finds the models to be consistent with the methodology Morenci uses to report
16 its monthly PPFAC bank balance information and also consistent with the methodology Staff uses
17 to verify Morenci's bank balance calculations.

18 7. Staff's analysis is based upon Morenci's models but is updated with actual data
19 through March 2006. Staff's analysis shows the bank balance reaching zero in May 2006 and
20 assumes implementation of the new adjustor rate in June 2006. In its application, Morenci had
21 assumed the bank balance would reach zero in April 2006 with implementation of the new rate in
22 May 2006.

23 8. Staff's analysis indicates the PPFAC bank balance would reach the \$200,000 over-
24 collected threshold level in December 2007 if no action is taken and the adjustor rate were allowed
25 to revert back to the -\$0.01391 level in effect before the temporary credit was implemented. Staff
26 concurs with Morenci that an adjustor rate of -\$0.01900 results in a total rate close to Morenci's
27 projected cost of purchased power and is a reasonable estimation of a PPFAC adjustor rate that, for
28 the foreseeable future, is likely to minimize the Company's accumulation of a significant over-

1 collected or under-collected balance. Staff's analysis projects a bank balance even closer to zero
2 through most of the analysis period than Morenci's and one that remains well within the over-
3 collected threshold level of \$200,000 and the under-collected threshold level of \$500,000.

4 9. Morenci's analysis illustrates the proposed adjustor rate of $-\$0.01900$ being
5 implemented in May 2006 and being replaced with another new adjustor rate of $-\$0.01290$ in
6 January 2008. This less negative adjustor is to track increasing purchased power costs and to
7 minimize a growing under-collected balance projected for the latter half of 2008. Staff's analysis
8 assumes the $-\$0.01900$ rate will remain in effect through the end of 2008, as far as the analysis
9 projects. Staff's analysis shows a rapidly growing under-collected bank balance near the end of
10 2008, but one that is well within Morenci's \$500,000 under-collected threshold level. Morenci
11 informed Staff that it was not proposing that the Commission approve a two-step adjustor rate, and
12 Staff does not recommend a two-step adjustor.

13 10. The current and proposed PPFAC adjustor rates are both negative as Morenci's
14 actual costs for purchased power continue to be lower than the base cost of power set in Decision
15 No. 54712. Approximately 98 percent of the Company's electric sales are contract sales to its
16 single industrial customer. These sales fall outside the PPFAC because the customer is served
17 under a special contract. The PPFAC mechanism is relevant only to the other two percent of
18 Morenci's sales to 1,789 residential and 261 commercial customers as of March 2006. During the
19 last few years, the Company's electric sales subject to the PPFAC exhibited a slow growth pattern,
20 but with some seasonality during the summer cooling season and the winter heating season. The
21 number of jurisdictional customers and usage per customer are both slowly increasing. Although
22 the costs to serve Morenci's large industrial customers are not included in the PPFAC, the
23 Company is able to negotiate long-term contracts for all of its customers because of this large
24 industrial load, resulting in added stability and possibly lower purchased power costs for all
25 customers.

26 11. Implementation of the new adjustor rate, including automatic discontinuance of the
27 temporary credit of $-\$0.02939$ and replacement of the current adjustor of $-\$0.01391$ with the
28 proposed adjustor of $-\$0.01900$, would have the effect of increasing the residential customer's

1 monthly bill from \$35.76 to \$48.40, assuming 2005 average usage of 521 kWh monthly. This
2 would be a 35.3 percent increase in the current residential monthly bill. In a peak month, this
3 would have the effect of increasing the residential customer's monthly bill from \$45.37 to \$62.01,
4 assuming 2005 peak usage of 685 kWh per residential customer. This would be a 36.7 percent
5 increase in the current peak month bill.

6 12. Staff and Morenci have discussed the provision of notice to customers regarding its
7 application for adjustor rate changes. The Company is currently composing a notice on the effect
8 of removal of the temporary credit and implementation of the proposed adjustor for Staff review.
9 Morenci anticipates that it could include such notice in the local weekly newspaper to be published
10 May 24, 2006. Morenci has also agreed to provide notice on the effect of removal of the
11 temporary credit and implementation of any new Commission-approved adjustor with customer
12 bills sent out in June 2006. This would be the same billing that would utilize the new adjustor
13 rates in the calculation of customer bills. Morenci would also publish any new Commission-
14 approved adjustor rate in the local newspaper as soon as possible after Commission approval and
15 before the June billing.

16 13. In summary, Staff feels that implementation of the proposed adjustor rate would set
17 the total rate closer to the actual and projected cost of purchased power and, therefore, minimize
18 the accumulation of either an over-collected or under-collected bank balance. Although the rate
19 represents a 35.3 percent increase, the increase is over a current rate deliberately set well below the
20 cost of purchased power in order to remove a significant over-collected bank balance and would
21 result in a total rate lower than the rate in effect prior to the implementation of the temporary
22 credit.

23 14. Staff has recommended adoption of the proposed adjustor rate of -\$0.01900 per
24 kWh to replace the current adjustor rate of -\$0.01391 per kWh, effective with the bills sent in June
25 2006.

26 15. Staff has further recommended that the new adjustor rate be implemented
27 concurrently with the removal of the temporary adjustor rate credit of -\$0.02939 per kWh and that
28 both shall be reflected on bills sent in June 2006.

1 16. Staff has also recommended that Morenci provide timely notice (acceptable to
2 Staff) to customers, informing them of the new adjustor rate to be implemented. This may be in
3 the form of a newspaper notice and must be published prior to the Company billing in June.

4 CONCLUSIONS OF LAW

5 1. Morenci is certificated to provide electric service as a public service corporation in
6 the State of Arizona.

7 2. The Commission has jurisdiction over Morenci and over the subject matter of the
8 application.

9 3. The Commission, having reviewed the application and Staff's Memorandum dated
10 May11, 2006, concludes that it is in the public interest to approve the change in the Purchased
11 Power and Fuel Adjustment Clause Rate for Morenci.

12 ORDER

13 IT IS THEREFORE ORDERED that the proposed adjustor rate of -\$0.01900 per kWh, to
14 replace the current adjustor rate of -\$0.01391 per kWh, is hereby approved.

15 IT IS FURTHER ORDERED that the new adjustor rate be implemented concurrently with
16 the removal of the temporary adjustor rate credit of -\$0.02939 per kWh and that both shall be
17 reflected on bills sent in June 2006.

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1 IT IS FURTHER ORDERED that Morenci provide timely notice (acceptable to Staff) to
2 customers, informing them of the new adjustor rate to be implemented. This may be in the form of
3 a newspaper notice and must be published prior to the Company billing in late June.

4 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

5
6 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

7
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9 CHAIRMAN

COMMISSIONER

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12 COMMISSIONER

COMMISSIONER

COMMISSIONER

13
14 IN WITNESS WHEREOF, I BRIAN C. McNEIL, Executive
15 Director of the Arizona Corporation Commission, have
16 hereunto, set my hand and caused the official seal of this
Commission to be affixed at the Capitol, in the City of
Phoenix, this _____ day of _____, 2006.

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19 _____
20 BRIAN C. McNEIL
Executive Director

21
22 DISSENT: _____

23
24 DISSENT: _____

25 EGJ:JDA:lhmlJMA
26
27
28

1 SERVICE LIST FOR: Morenci Water & Electric Company
2 DOCKET NO. E-01049A-06-0219

3 Mr. Michael W. Patten
4 Roshka DeWulf & Patten, PLC
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7 Phoenix, Arizona 85004

8 Mr. Ernest G. Johnson
9 Director, Utilities Division
10 Arizona Corporation Commission
11 1200 West Washington
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13 Mr. Christopher C. Kempley
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